

УДК 336
JEL: F36

REGIONAL PARTNERSHIP FOR ECONOMIC DEVELOPMENT

Yarygina I.Z.

*Financial University under the Government of the Russian Federation, Moscow,
Russian Federation
<http://orcid.org/0000-0001-8684-1684>*

РЕГИОНАЛЬНОЕ СОТРУДНИЧЕСТВО КАК ФАКТОР РАЗВИТИЯ ЭКОНОМИКИ

Ярыгина Ирина Зотовна

*Доктор экономических наук, профессор
Финансовый университет при Правительстве Российской Федерации, Москва,
Российская Федерация
<http://orcid.org/0000-0001-8684-1684>*

ABSTRACT Public Private Partnership helps to find solution for international cooperation and formation of international financial relations. PPP is able to provide users with quality services for the minimal price. Participants of the regional cooperation needs to take into consideration international experience, which contributes to the economic development of the country. Analysis of the best practices and ways of its implementation is presented in the article.

АННОТАЦИЯ Частно-государственное партнерство способствует поддержке международных экономических связей и формированию региональных финансовых отношений. ЧПП создает условия предоставления пользователям качественных услуг по минимальной стоимости. Сторонам регионального сотрудничества необходимо учитывать международный опыт, который способствует развитию национальной экономики. Анализ лучших мировых практик и возможности их использования представлен в статье.

Key words: regional cooperation, financing, economic development, public-private partnership.

Ключевые слова: региональное сотрудничество, финансирование, экономическое сотрудничество, частно – государственное партнерство

Introduction

Any country, which is a member of the integrated economic alliance, chose the route towards internationalisation, cooperation economic integration and modernisation mainly in the key sectors of national economy. That principle is quite typical for developing countries that are setting up programs of economic and financial development and doing its best for promoting international cooperation. Priorities are economic development and governmental support backed by cooperation between public and private entities. The contemporary approach of governments in emerging markets is as following: public private partnership (PPP) is a platform where public and private investors come together to find mutually beneficial resolution of financial and economic problems. It is important to note that PPP does not favour any transfer of assets from public to private entities. For the government – the aim is to solve social and economic problems, for private entity – the aim is profit maximisation. Practice in USA, Japan and other European countries has shown that obligation and risks are successfully distributed within PPP interaction if the project is individually structured and monitored by implementation schedule. Essential PPP business model is a partnership, which is implemented within responsible involvement of both sides in a project of social interest and valued outcome. As a result, PPP is beneficial for all parties, involved in the project. For public authorities and business entities, it is an opportunity for economic modernisation and development.

Literature review

The theory of fiscal federalism identifies main functions for the public sector: macroeconomic stabilization, income distribution and resource allocation (Oates, 1999) [1]. The problem of fiscal decentralization in developing countries are carefully studied by Fukasaku and de Mello, Manor, Crook and Manor (1998 - 1999), that tried to give reason to the restructuring of government and market functions. Some scholars within the public choice school consider that decentralization tends to increase competition among jurisdictions (Brennan and Buchanan, 1980; Breton, 1989). Anyway, in globalized economy developing countries (Ahmad, 1997) require the mechanism of intergovernmental grants transfers. Thus, the intergovernmental financial institutions can contribute to it, supplying the country-members with unconditional, conditional and equalization grants (Brosio, 2000). There is no denying the fact, that only international experience can provide useful methods for policy makers (Bird and Vaillancourt 1998), but the approach of laissez-faire or market fundamentalism has a weak potential to solve most economic and social problems (Stiglitz, 1998). George Soros in “The Crisis of Global Capitalism” (1998) that trusts in a free market mechanism popularized market fundamentalism. That is a privilege of a genius, but practice has proved the approach of J. E. Stiglitz, who criticized the IMF, advocating a set of policies, which is generally referred to the market fundamentalism, “based on an incorrect understanding of economic theory and as an inadequate interpretation of the historical data.” The correct understanding means reasonable regulation and cooperation

in solving problems and meeting new challenges. There is an on-going process of reengineering international cooperation within globalized economic environment. The speed of cooperation depends on macro and micro-economic factors, as well as participation in the global market, supply of the products and political support. Mutual aims of any government are linked with economic and social developments, as well as successful production, safe banking, financial stability and effective debt management, which is the main feature of globalization. The goals can be reached within international cooperation.

Methodology

The mixed methods of research, that included contextual understanding like interviews or observations, were combined with facts and statistics that contributed to the investigation of the subject on multiple levels, gaining different views and a comprehensive look at the research. An applied mixed methodology led us to the integration of different theories and ideas. While carrying out the qualitative research, there was a goal to explore specific phenomena, not to prove a prediction, according to qualitative research methods. The assessment of interviews, focus groups and observation of main developments and contract arrangements were also used to collect data. Used qualitative methods provided rich, contextual explorations of the topic that is culturally meaningful.

Results

The analyses of the materials resulted in the following. History of PPP can be broken down into the following stages: a) auto sourcing, where state asks privately owned institutions to find a solution to the problem for the specified fee. Scale of this relationship is shifted towards area of operations; b) project design, implementation and construction. In this type of relationship, emphasis is placed on co-operation. At the entrance level- cooperation of financial resources from private businesses, including subsidies, and at the final stage - full implementation; c) full public - private entities relationship, based on individual contracts between public authorities and private institution, process of co-manufacturing, and co-implementation of specially designed projects, etc. These types of integration between public and private entities can be effective between two-party and multiple-parties relationship within the integrated alliance and its partners. This type of cooperation will aid economic modernisation, successful production and consumption. However, it is necessary to be supported by political will, share of responsibilities, and transparency of transactions and clarity of goals. Based on prior experience, the most widely acceptable type of PPP is formation of jointfunds covering finance, insurance and tax promotion, reconstruction, financial engineering, professional support within project implementation. Usually, some types of regional co-operation have a concessional base, where the government provides the entity with the right to use or develop resources (assets) on contractual basis. In USA – Canada case, for example, concessions, covering huge development projects are provided for over 99-year period. Special contractual relationship

between the government and private institution of partner countries facilitate achievement of desired results. The best example of this PPP co-operation can be found in Europe, where projects in different industrial spheres: transportation, energy, education, machinery, medical services, defence, regional development have been successfully implemented. Interesting to note the USA, European and Japanese experience in successful regional projects. They cover, but not limited to environmental projects (recycling, water sanitation plants), construction of motorways and railways, airports, bridges, development of the infrastructure, construction of housing, energy efficiency, etc.

The other type of “know how” comes from the Philippines, where government decided to invite national and international enterprises for implementation of large infrastructure development projects. CMB- JP Morgan, USA, provided financial assistance. 147 public and private entities were involved in the project. It is important also to note the importance of PPP in regional and small town development, when government provides grants/exemptions of taxation and insurance, which conveys favourable conditions for co-operation of the involved entities, that investigate risk appetite project delivery and use their wide professional knowledge in introducing products and services to meet consumer requirements. As a whole, the role of a public entity is to provide favourable conditions for project strategy application, including growth of creativity, innovation, transformation of financial, technological, social and other areas, connected with research and development. The mentioned experience is worthwhile taking into consideration.

British experts concluded that innovative PPP traditionally sets up its administrative procedures during the project application, depending on its specific business needs. Project team members should develop and maintain business – process and contacts, as well as manage risks, depending on their expertise and involvement in the project. The Government of developing countries take into consideration international experience, which concludes, that a specially designed agreement between public and private entity facilitates the implementation of the project, specially within the activity of small and medium size enterprises. Flexible projects terms and conditions and profound expertise support is of a real need. Actually, there are several stages of PPP formation: goals setting, analysis of project’s specificity, development of roles/responsibilities, terms and conditions, adoption of goals (in accordance with different project areas), establishing of common objectives for the follow on periods, improvement of required rules, terms and conditions connected with new events, administration of the on-going project (tax policies, subsidies, guarantees, donations, structured finance) with possible involvement of international investors. PPP provides quality services to all users / members for a minimal compensation and available concessions. The co-operation schedule is applied to rubbish removal by the Chicago, USA municipal authority and to hospital construction and medical services in Birmingham, UK. PPP’s practice can be seen

in planning, construction and maintenance of San Diego International University, California, USA. This project has been “working” for the past 45 years. The cost of this project is 38 billion USD. Construction of the site, technical support, café and library services were provided by private entities. Municipality participated in the project by tax exemptions during construction and operational period until the loan settlement. According to the PPP agreement, project expenses were split: 10% - international public institutions and 90% - private entities of partner countries. As a result - private financing, therefore, reducing budgetary burden and unemployment covered social needs. Project participants emphasise the necessity of having a result driven team especially in socially important area. Important lesson of PPP – meticulous choice of partners and open discussion of problems and solutions, which will guard members from unnecessary risks. Actually, prospects of regional cooperation in infrastructure development and machinery engineering possesses economic challenges, resolution of which need to involve prior world experience. The important role of public institutions within international cooperation in metallurgy should also be taken into consideration within emerging markets, stimulating social responsibility of business, supporting the less advantageous institutions, developing harmonized practices, supporting innovations. In order to develop national economy of the integrated member countries it is necessary to harmonize regulatory system towards specific forms of financing, costing of tangible and technical resources, prevention of fraud, breaking terms and conditions of the contract, assistance towards distribution and trade of producers, creation of efficient tax and business control system, supporting continuous business administration base of mutual projects. Actually, that is being done by the BRICS and Eurasian Union trade partners. Special attention is paid to strengthening the universal regulations, which stimulate the development of innovations – expensive, but important forthcoming segment of interstate economy that is constantly in demand. Experts of the International Monetary Fund note that positive development tendencies in economies are connected with toughening of regulation base and correlation of financial systems of partner - countries. Process of modernization of global economy, backed by key sectors of economy is currently in motion. Effective solution of international cooperation is within PPP vehicle.

Discussions: public support is a wheel for development

The experience has proved the conclusion of the key role of public institutions in economic and social development, which is due to the following: The government can successfully support development of important environmental, infrastructural, social and educational projects with the vital outcome for stakeholders. Thus, the government compensates market discrepancies and shortfalls with the vast profit desire. More than that, intergovernmental initiatives positively influence supply and demand as well as through pricing policy regulate economic growth. Activity of market players is connected with a desire for self-sufficiency

and achievement of quick results. Each business, industry, region aspires to satisfaction of their own interests and is governed by “selfish” microstructural demands. Effective interstate relations among partner countries in the financial arena are able to provide productive co-existence of micro and macroeconomic interests based on PPP coexistence. Development of world financial markets distorts macroeconomic relations, which demand optimal governmental or intergovernmental involvement that does not mean deep interference into the market fluctuation, but concerns of the need of regulation and support in creation favourable conditions for economic development and strengthening role of the country and its partners in the globalized economy. Thus, the current fundamental goals of any state is economic growth, production increase, and modernisation of supply and demand structure, innovations support, as well as social responsibility and fair competition of economic entities. Actually, public institutions select effective vehicles for the macro and micro economic administration, based on harmonization of financing standards, support of competitiveness and improvement of standards of living. In its turn, expansion of financial relations between partner - countries requires adherence to the following rules: democratic approach towards restructuring, provision of interstate administration and legal support, stimulation of co-operation on the PPP basis. In this case, special attention of allied unions, such as BRICS or Eurasian Union is to be paid to intergovernmental cooperation on the regional level that can contribute to the economic development of the country. It is worthwhile going along the way of co - financing and providing concessions, guaranties, insurance of export financing, distribution of goods and services, intellectual resources, transparency of management and support of innovations. It is also worthwhile using international experience of having intergovernmental control of pricing, quality of goods and services, management of key projects. Historically, creation of new approaches in international economic relations is connected with strengthening co-operation between public and private entities. Public institutions are involved in financial, economic and social positioning of the country and use wide selection of resources, including available technologies, such as budget management, tax and insurance regulation, monetary policy, legal system, etc. These types of intergovernmental involvements must be considered, while selecting optimal solutions for current issues in regional partnership, which possess a substantial potential for the partner country economic support.

Conclusions

Experience of the countries, including Russia, that have overcome consequences of financial market developments has shown that the most important challenge is the choice of mechanisms for restructuring and modernization as well as international cooperation. Economic interests are the essence of beneficial international regional relations, recognition of which depends on political will. Intergovernmental support of entrepreneurs in Mongolia on PPP basis fully encourage optimal growth of the national economy as well as the economies of the partner – countries.

References

1. Ahmad, E. (1997). Intergovernmental transfers – an international perspective, chapter 1 in Ahmad (ed.) Financing decentralized expenditures. An international comparison of grants. Cheltenham: Edward Elgar.
2. Bird, R. & Vaillancourt, F. (1998). Fiscal Decentralization in developing countries. Cambridge: Cambridge University Press.
3. Brennan, G. & Buchanan, J.M. (1980). The power to tax: Foundations of a fiscal constitution. New York: Cambridge University Press.
4. Breton, A. (1989). The growth of competitive governments. Canadian Journal of Economics, vol.22.
5. Brosio, G (2000). Decentralisation in Africa. The African Department. Washington DC.: International Monetary Fund.
6. Concept of cooperation between the Eurasian member - states in currency sphere from 22.06.2005 No. 220 (2012). Eurasian Economic Membership : Retrieved from www.evrazes.com/docs/view/66
7. Crook, R.C. & Manor, J. (1998) Democracy and decentralization in South Africa and West Africa. Participation, accountability and performance. Cambridge: Cambridge University Press.
8. Financial Stability Review. – SA Reserve Bank. 2016. March. – URL: [//www.reservebank.co.za](http://www.reservebank.co.za)
9. Fukasaku, K. & L. de Mello Jr. (1999), Fiscal decentralisation in emerging economies. Governance Issues. Paris: OECD, Development Centre.
10. Jensen, M. C., & Ruback, R. S. (1983). The market for corporate control: The scientific evidence. Journal of Financial economics, 11(1).
11. Manor, J., (1999) The political economy of democratic decentralization. Washington D.C.: The World Bank.
12. Oates, W. (1999). An essay on fiscal federalism. Journal of Economic Literature, vol.37, no.3
13. Powell, R., & Allen, D. E. (2017). Bank default risk in the US and UK. In Gregoriou (Ed.), Book on financial crisis. Chapman Hall.
14. Soros, George (1998). The Crisis of Global Capitalism: The Crisis of Global Capitalism: Open Society Endangered. New York: PublicAffairs. ISBN 978-1-891620-27-0
15. Stiglitz, Joseph. Redefining the Role of the State - What should it do ? How should it do it ? And how should these decisions be made? Paper presented at the Tenth Anniversary of MITI Research Institute, Tokyo, March 2015.
16. Yarygina Irina (2014) Financial institutions of BRICS as an essence of fruitful cooperation. Studies of Socio – Economics and Humanities. 2014. V.4.